



EXPLORING EMPLOYEE PERCEPTIONS OF LEADERSHIP AND MANAGEMENT PRACTICES IN SECOND-GENERATION FAMILY-OWNED BUSINESSES

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ABSTRACT

Leadership and management practices play a pivotal role in shaping the success and sustainability of any organization, particularly family-owned businesses transitioning to second-generation leadership. Effective leadership inspires and motivates employees, aligns organizational goals with strategic actions, and fosters a culture of trust and collaboration. In second-generation family businesses, these practices become even more critical as leaders must navigate the complexities of balancing tradition with innovation. Family-owned businesses are a vital component of the global economy, particularly in regions like Gujarat, where entrepreneurial ventures are deeply rooted in tradition. The transition of leadership and management from the founding generation to the second generation introduces unique challenges and opportunities. This study explores employee perceptions of leadership and management practices in second-generation family-owned businesses in Gujarat. A sample size of 164 employees was surveyed to analyse their views on leadership effectiveness, management approaches, and the influence of demographic factors on these perceptions. The findings reveal insights into employee satisfaction, the alignment of leadership practices with modern business needs, and the role of inclusive management in fostering organizational success. This research contributes to the understanding of how second-generation family business leaders can optimize their practices to enhance employee engagement and business sustainability.

KEYWORDS: Employee Perception, Leadership Practices, Management Practices, Second-Generation, Family-Owned Businesses

1. INTRODUCTION

Family-owned businesses form the backbone of economies worldwide, particularly in regions with deep entrepreneurial traditions. These businesses, characterized by ownership and control being concentrated within a family, often combine the personal aspirations of the family members with the professional goals of the organization. This dual focus brings unique opportunities and challenges, especially in leadership and management practices.

Nature of Family-Owned Businesses

Family-owned businesses are often built on foundational values, traditions, and a vision that reflects the family's legacy. Their unique structure allows for long-term planning and resilience, as family members are typically invested not only in the financial success of the business but also in its reputation and sustainability. However, the intertwining of personal and professional relationships can complicate decision-making and organizational dynamics. Leadership and management practices within such businesses must therefore navigate these complexities while fostering an environment conducive to growth and innovation.

Leadership in Family-Owned Businesses

Leadership in family-owned businesses often evolves in stages, with the founding generation setting the tone. Founders are typically visionary leaders who rely on intuition, personal networks, and hands-on management to establish and grow the

business. Their leadership style is often autocratic, given their deep personal involvement in all aspects of the organization. As the business transitions to the second generation, leadership becomes more complex. The new leaders, often the children of the founders, bring their own perspectives, educational backgrounds, and aspirations. Balancing respect for the founders' legacy with the need to modernize operations and adapt to market dynamics is a central challenge for second-generation leaders. Leadership effectiveness in this phase depends on their ability to build trust within the family and among employees, foster collaboration, and implement structured decision-making processes.

Management Practices in Family-Owned Businesses

Management practices in family-owned businesses vary depending on the size, industry, and generational stage of the business. In the early stages, management tends to be informal and centralized, with the founder playing a pivotal role in all major decisions. Employees often develop personal relationships with the family, which can enhance loyalty but may also lead to blurred lines between professional roles and personal affiliations. As the business grows and transitions to subsequent generations, professionalizing management becomes a priority. This includes adopting formal systems for decision-making, performance evaluation, and conflict resolution. Recruiting non-family professionals to key managerial positions can also bring fresh perspectives and expertise, enhancing operational efficiency. However, integrating these professionals into a

family-dominated culture requires careful management of expectations and roles.

Challenges in Leadership and Management

The intersection of family and business interests often leads to unique challenges. Succession planning is one of the most critical issues, as it involves not just the transfer of ownership but also the identification of capable leaders who can align the business's strategic goals with the family's values. Resistance to change, especially from older generations, can hinder the adoption of new management practices and technologies. Similarly, conflicts among family members regarding roles, responsibilities, and compensation can impact organizational harmony and decision-making. Employees in family-owned businesses may also perceive favouritism towards family members, which can affect morale and productivity. To address this, second-generation leaders must prioritize transparency, fairness, and effective communication, ensuring that all employees feel valued and recognized for their contributions.

Leadership Trends in Modern Family-Owned Businesses

Modern family-owned businesses increasingly recognize the importance of developing leadership and management practices that combine the best of traditional values with contemporary management principles. Leadership development programs tailored to family businesses, succession planning frameworks, and the integration of technology into management practices are becoming more common. Additionally, younger generations often emphasize corporate social responsibility and sustainability, aligning the business's goals with broader societal expectations.

2. SIGNIFICANCE OF THE STUDY

The significance of the study lies in its potential to contribute to both academic research and practical insights into the dynamics of family-owned businesses. Gujarat, known as a hub for entrepreneurial ventures and family businesses, provides a fertile ground for analysing how leadership transitions from one generation to another influence organizational culture and employee engagement. Family-owned businesses are a cornerstone of the Indian economy, contributing significantly to employment and GDP. However, the transition from the founding generation to the second generation often brings changes in leadership style, management practices, and strategic priorities. Employees, being at the core of operational success, are directly impacted by these shifts. Understanding their perceptions is crucial as it can reveal insights into how these changes influence motivation, loyalty, productivity, and overall workplace dynamics.

From a theoretical perspective, this study aims to fill a gap in existing literature concerning second-generation leadership and management practices in Indian family-owned businesses, particularly in Gujarat. While numerous studies focus on the entrepreneurial spirit of the founding generation, there is limited exploration of how the subsequent generation handles leadership and management responsibilities. This research can provide a deeper understanding of whether second-generation leaders align with or deviate from the foundational principles

established by their predecessors and how these decisions are perceived by employees. Practically, the findings of this study can be valuable to family-owned businesses themselves. By analysing employee perceptions, second-generation leaders can identify areas of strength and opportunities for improvement in their leadership and management styles. For instance, if employees perceive the leadership as too rigid or disconnected from contemporary business practices, it could lead to disengagement and turnover. Conversely, a positive perception can foster a collaborative and motivated workforce, ultimately driving business growth and sustainability.

Additionally, the study has broader implications for policymakers and business consultants. By highlighting challenges and best practices in second-generation leadership, the research can inform training programs, leadership development initiatives, and succession planning strategies tailored to the unique needs of family businesses. These insights can also serve as benchmarks for other businesses undergoing generational transitions, thus contributing to the larger body of knowledge on organizational development. In summary, this study is significant as it seeks to bridge the gap between theory and practice, offering actionable insights that can enhance the performance and longevity of family-owned businesses in Gujarat. By focusing on employee perceptions, it emphasizes the human element in organizational transitions, underscoring the importance of inclusive and adaptive leadership for long-term success.

3. LITERATURE REVIEW

Uhlener, L. M., Berent-Braun, M. M., Jeurissen, R. J. M., & Zernitz, P. (2023), This study explored leadership styles in family firms and their impact on organizational outcomes. While not solely focused on employee perceptions, it highlights the importance of leadership style in shaping the work environment. The authors concluded that different leadership styles (e.g., transformational vs. transactional) can have varying effects on employee motivation, commitment, and performance. This suggests that in second-generation family businesses, the leadership style adopted by the successor can significantly influence how employees perceive the management practices and the overall work climate.

Danes, S. M., & Brewton, K. E. (2018), this research delved into the dynamics of family businesses, including the role of communication and conflict management. Their findings emphasized the importance of open and effective communication in fostering positive employee relations. In the context of second-generation businesses, this implies that clear communication from the successor regarding their vision, strategies, and expectations can help alleviate employee uncertainty and foster a sense of stability. Effective conflict resolution mechanisms are also crucial in managing potential tensions arising from the transition in leadership.

DeMassis, A., Audretsch, D. B., Uhlener, L. M., & Kammerlander, N. (2018), this work examined the entrepreneurial orientation of family firms and its impact on innovation. While not directly addressing employee perceptions, it highlights the importance

of fostering an innovative culture. In second-generation businesses, a successor who promotes innovation and empowers employees to contribute ideas is likely to be perceived more favourably. This can lead to increased employee engagement and a more dynamic work environment.

Kellermanns, F. W., Eddleston, K. A., Barnett, T., & Pearson, A. (2018), this study investigated the influence of family involvement on organizational culture and performance. Their conclusions suggested that the level and type of family involvement can significantly shape the organizational culture, which in turn affects employee attitudes and behaviours. In second-generation businesses, the successor's approach to family involvement (e.g., whether they involve other family members in management) can influence how employees perceive the fairness and transparency of the management practices.

Memili, E., Zellweger, T., & Tarba, S. Y. (2021), this research focused on human resource management (HRM) practices in family firms. Their findings emphasized the importance of aligning HRM practices with the specific needs and values of the family business. In second-generation businesses, this means that the successor should consider adapting HRM practices to reflect their own leadership style and the evolving needs of the business. This can include changes in recruitment, training, performance management, and compensation systems.

Kraiczy, N. D., Hack, A., & Kellermanns, F. W. (2016), this study explored the relationship between leadership and organizational identity in family firms. They concluded that leaders play a crucial role in shaping and maintaining the organizational identity, which in turn affects employee identification and commitment. In second-generation businesses, the successor's ability to articulate a clear vision for the future and connect it to the existing organizational identity can be crucial in gaining employee buy-in and maintaining a sense of continuity.

Shepherd, D. A., & Patzelt, H. (2022), this work focused on the role of entrepreneurial orientation in family business succession. Their findings emphasized the importance of the successor's entrepreneurial mindset in driving future growth and success. Employees are likely to be more engaged and motivated when they perceive the successor as having a clear vision for the future and a proactive approach to pursuing opportunities.

Chua, J. H., Chrisman, J. J., & Sharma, P. (2017), this study provided a comprehensive review of the family business literature, including discussions on leadership and management. They highlighted the unique challenges and opportunities faced by family businesses, including issues related to succession, governance, and family dynamics. Their work underscores the importance of understanding these dynamics in order to effectively manage and lead family businesses.

Salvato, C., & Moores, K. (2018), this research explored the role of organizational culture in family business performance. Their conclusions emphasized the importance of a strong and cohesive culture in fostering employee commitment and

driving business success. In second-generation businesses, the successor's ability to maintain and evolve the organizational culture in a way that aligns with their leadership style and the changing business environment is crucial.

4. RESEARCH OBJECTIVES

1. To analyse the perception of employees towards leadership and management practices in second-generation family-owned businesses.
2. To explore potential associations between the demographic profiles of employees and their perception towards leadership and management practices.

5. SAMPLE SIZE

In this study, a sample size of 164 employees working in second-generation family-owned businesses from India have been targeted.

6. DATA ANALYSIS

1. **H₀:** Employees do not believe that the management supports employees' professional growth and development

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
the management supports employee's professional growth and development	34.088	163	0.012	0.221	0.104	0.182

As per the above table it is seen that significance value is 0.012 which is lower than standard value 0.05, So Null hypothesis is rejected and it is concluded that Employees believe that the management supports employees' professional growth and development.

2. **H₀:** Employees do not believe that the second-generation leadership has positively impacted the organization's growth.

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
The second-generation leadership has positively impacted the organization's growth.	38.315	163	0.018	0.027	0.151	0.629

As per the above table it is seen that significance value is 0.027 which is lower than standard value 0.05, So Null hypothesis is accepted and it is concluded that Employees believe that second-generation leadership has positively impacted the organization's growth.

3. **H0:** Employees do not believe that the second-generation leadership has introduced practices that align with modern business needs.

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
the second-generation leadership has introduced practices that align with modern business needs.	42.542	163	0.000	0.214	0.598	1.076

As per the above table it is seen that significance value is 0.000 which is lower than standard value 0.05, So Null hypothesis is rejected and it is concluded that employees believe that second-generation leadership has introduced practices that align with modern business needs.

4. **H0:** There is no associations between the demographic profiles of employees and their perception towards leadership and management practices.

Variable- 1	Variable-2	Pearson Chi-Square	P Value	Decision
Gender	The management supports employees' professional growth and development	33.143	0.039	There is Significant Association
	The second-generation leadership has positively impacted the organization's growth.	50.145	0.043	
	The second-generation leadership has introduced practices that align with modern business needs.	57.362	0.000	

Age	The management supports employees' professional growth and development	42.301	0.020	There is Significant Association
	The second-generation leadership has positively impacted the organization's growth.	74.805	0.002	
	The second-generation leadership has introduced practices that align with modern business needs.	15.200	0.030	
Designation	The management supports employees' professional growth and development	72.401	0.023	
	The second-generation leadership has positively impacted the organization's growth.	74.191	0.017	
	The second-generation leadership has introduced practices that align with modern business needs.	37.949	0.009	

7. FINDINGS

The study reveals that employees working in second-generation family-owned businesses perceive the management as supportive of their professional growth and development, suggesting that these organizations invest in enhancing employee skills and career progression. Employees also believe that the second-generation leadership has positively contributed to the overall growth of their organizations, indicating that the new leadership is effectively driving business expansion and success. Furthermore, employees feel that the leadership has introduced management practices that align with modern business requirements, reflecting an openness to innovation, technological advancement, and contemporary management techniques. The study also finds significant associations between employees' demographic profiles—such as gender, age, and designation—and their perceptions of leadership and management practices. This indicates that different employee groups may view leadership styles and management approaches differently based on their background and position within the organization, highlighting the need for leaders to adopt diverse

and inclusive strategies to meet the expectations of a varied workforce.

8. CONCLUSION

The findings of this study underscore the critical role of second-generation leadership and management practices in shaping employee perceptions and driving organizational success in family-owned businesses. Employees perceive the management as supportive of their professional growth and development, indicating that the organization values its workforce and prioritizes skill enhancement and career progression. Such practices not only foster employee satisfaction but also contribute to building a motivated and competent team.

Furthermore, the positive impact of second-generation leadership on organizational growth highlights their ability to align strategic goals with evolving market demands. By introducing practices that resonate with modern business needs, these leaders have successfully bridged the gap between traditional values and contemporary approaches. This alignment not only reflects their adaptability but also strengthens the organization's competitive edge in the market.

Overall, the study demonstrates that second-generation leaders are effectively addressing the challenges of generational transitions while creating a workplace environment that promotes growth, innovation, and employee engagement. These insights emphasize the importance of continued focus on leadership development and management practices to sustain the success and legacy of family-owned businesses in a dynamic business landscape.

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